



*"People
helping people
help
themselves"*

Mitchell E. Daniels, Jr., Governor
State of Indiana

Indiana Family and Social Services Administration
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INDIANAPOLIS, IN 46207-7083

Anne Waltermann Murphy, Secretary

To: The Honorable Richard Lugar
The Honorable Evan Bayh

From Secretary Anne Waltermann Murphy

Date: December 4, 2009

CC: Governor Mitchell E. Daniels

Re: Senate Health Care Reform Proposal

At your request, over the past two weeks, the Indiana Family & Social Services Administration staff has been working to analyze the potential impact of the over 2,000 pages of the Senate health care reform bill. I am enclosing the analysis performed by the State's actuary Milliman. This bill calls for an expansion in the Medicaid program by 50% which amounts to 500,000 new Medicaid beneficiaries in Indiana. This equates to 1 in 4 Hoosiers enrolled in a public program.

Over the next ten years, our actuaries estimate the Senate bill will cost Hoosier taxpayers an additional \$2.4 billion dollars. This number includes the cost of the Medicaid expansion as well as provider rate increases for Medicaid that will be necessary to create a delivery network. The financial impact of this bill is deeply troubling, especially at a time when State revenues have decreased significantly, expenditures have increased due to enrollment and we can barely afford the program we have, even with the ARRA enhanced FMAP match rate which expires in December 2010. As you may be aware, we recently cut Medicaid rates to hospitals by 5%.

While the Senate proposal attempts to divert State costs for the first three years of the program and to increase federal Medicaid matching funds, components of the bill will increase State costs upon enactment. Specifically, changes to the pharmaceutical rebates will divert rebate savings to the federal government instead of States. This could result in a loss of \$75 million *next* year for Hoosiers and \$750 million by 2019.

In addition, we have estimated that State costs to implement the insurance "exchange" as detailed in the Senate proposal as well as making the necessary changes to accommodate the 50%

increase in Medicaid program could reach between \$60-80 million. These new costs are not addressed in the bill.

Perhaps of most concern is the unfunded entitlement the state will face in 2019 when the current legislation will be reauthorized by a new Congress. We cannot be certain the federal government will continue the commitment to insure 500,000 Hoosiers with the enhanced FMAP rate of 95%. The FMAP could fall back to its current 67% rate which would require Indiana taxpayers to fund almost \$900 million a year.

We have done our best to provide you with a thorough analysis of the costs to the State of Indiana related to this legislation. The report we have prepared is a conservative estimate. While increasing health care coverage and services to needy Hoosiers has always been a priority, and we have actively sought to increase the number of insured Hoosiers, I remain gravely concerned about the legislation in its current form. We are struggling to cover the costs of our current Medicaid obligations and unfortunately cannot afford this program without new State revenues.

